Metro Bank PLC

Interim Report

Six months ended 30 June 2017

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Company Information

Board of Directors

Chairman
Vernon W. Hill II

Non-Executive Directors
Stuart Bernau
Keith Carby
Roger Farah
Lord Howard Flight
Alastair (Ben) Gunn (Senior Independent Director)
Gene Lockhart
Monique Melis (Appointed 20 June 2017)
Sir Michael Snyder

Executive Directors
Craig Donaldson – Chief Executive Officer
Mike Brierley – Chief Financial Officer

Company Secretary
Mike Brierley

Registered Office
One Southampton Row
London
WC1B 5HA

Independent Auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside
London
SE1 2RT

Registered Number
6419578

www.metrobankonline.co.uk

About Metro Bank

Metro Bank is the revolution in British banking. It is celebrated for its exceptional customer experience and its trusted products, and was awarded 'Most Trusted Financial Provider' at the Moneywise Customer Service Awards 2017, as well as 'Best Financial Provider' at the Evening Standard Business Awards 2017 and 'Bank at the Year' at the CityAM Awards 2016.

Offering retail, business, commercial and private banking services, it prides itself on using technology to give customers the choice to bank however, whenever and wherever they choose. Whether that's through its growing network of stores open seven days a week, from early in the morning to late at night, 362 days a year; on the phone through its UK-based 24/7 contact centres, manned by people not machines; or online through its internet banking or award-winning mobile app.

The bank employs over 2,800 colleagues and is headquartered in Holborn, London.

Metro Bank is authorised by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority ("FCA") and the Prudential Regulation Authority. Metro Bank is a member of the British Bankers Association. Most relevant deposits are protected by the Financial Services Compensation Scheme. All Metro Bank products are subject to status and approval.

Key Highlights

The following metrics represent the core key performance indicators for the bank:

	6m to 30 June 2017	6m to 31 December 2016	Change	6m to 30 June 2016	Change
Profit and loss (6 months)					
Underlying profit/(loss) before tax**	£6.0m	£2.1m		£(13.0m)	
Statutory profit/(loss) before tax	£4.4m	£0.9m		£(18.1m)	
Total income	£131.1m	£111.0m	n/a	£84.1m	56%
Total operating expenses	£123.0m	£107.8m	n/a	£99.8m	23%
Net interest margin in period	1.97%	1.99%		1.94%	
Average cost of deposits in period	0.57%	0.73%		0.87%	

	30 June 2017	31 December 2016	Change	30 June 2016	Change
Customer data					
Customer loans	£7,750m	£5,865m	32%	£4,629m	67%
Ratio retail customers: commercial customers	*66%:34%*	*64%:36%*		*65%:35%*	
Customer deposits	£9,805m	£7,951m	23%	£6,599m	49%
Ratio retail customers: commercial customers	*48%:52%*	*50%:50%*		*48%:52%*	
Loan to deposit ratio	79%	74%		70%	
Asset quality					
Non-performing loans to period-end loans	0.26%	0.12%		0.12%	
Loan loss reserve to non-performing loans	50%	103%		146%	
Loan loss reserve to total loans	0.13%	0.12%		0.18%	
Cost of risk	0.12%	0.10%		0.12%	
Capital ratios					
Common Equity Tier 1 (“CET1”) ratio	13.5%	18.1%		21%	
Regulatory leverage ratio	4.9%	6.5%		8%	
Capital as %age deposits	8%	10%		12%	
Capital as %age of total assets	6%	8%		10%	
Total assets	£13,094m	£10,057m	30%	£8,351m	57%

Customer accounts have increased from 915,000 on 31 December 2016 to 1,045,000 at 30 June 2017

Customer loans:	Customer deposits:	Number of stores:
£7,750m	**£9,805m**	**48**

**The underlying profit/(loss) before tax removes the effects of the fees associated with listing and the FSCS levy.

Business and financial review

We are delighted to report our fourth quarter of underlying profit before tax. This has been another phenomenal period of growth, the results of which are a testament to the strength of our model and our focus on the integration of stores and technology to create FANS. We have delivered a statutory profit before tax of £4.4 million and customer accounts have surpassed 1 million. We have coupled this with continued development in our people, and our model, culture and focus on creating FANS remains a compelling alternative for consumers and businesses alike. Metro Bank remains a revolution in British banking, championing the right of every customer to receive service and convenience tailored to their needs.

Income statement review

Summary income statement	Half year to 30 June 2017 £'000	Half year to 30 June 2016 £'000	Growth
Net interest income	107,442	66,663	
Fee, commission and other income	22,332	15,808	
Net gains on sale of investment securities	1,331	1,601	
Total operating income	131,105	84,072	56%
Operating expenses	(105,530)	(84,558)	25%
Depreciation and amortisation	(15,912)	(10,117)	
Fees associated with listing	(744)	(3,875)	
FSCS levy	(836)	(1,252)	
Credit impairment charges	(3,659)	(2,405)	
Profit/(loss) before tax	4,424	(18,135)	n/a
Tax	(1,322)	1,167	
Profit/(loss) after tax	3,102	(16,968)	n/a

Total operating income increased 56% to £131.1 million (2016 HY: £84.0 million). Net interest income has increased 61% to £107.4 million (2016 HY: £66.6 million) due to continued strong loan growth across all of our lending books and the maintenance of a low cost of funds (cost of deposits of 0.57% for the 6 months to 30 June 2017; 6 months to 30 June 2016: 0.87%) reflecting strong growth in current accounts. Our loan to deposit ratio has increased from 70% at 30 June 2016 to 79% at 30 June 2017.

Metro Bank (“the Group”) earns fee and commission income through its range of commercial and retail banking services. In the six month periods ended 30 June 2017 and 2016, Metro Bank earned £22.3 million and £15.8 million in fee, commission and other income, respectively, of which £4.3 million and £3.3 million was attributable to the rental of safe deposit boxes by its customers.

Operating expenses increased 25% to £105.5 million (2016: £84.6 million) as we continued to invest in strengthening the capacity of our business to deliver customer service and convenience across all our channels.

Balance sheet review

Summary balance sheet	30 June 2017	31 December 2016	Growth
Assets	**£'000**	**£'000**	
Cash and balances with the Bank of England	1,114,031	434,612	
Loans and advances to banks	76,041	65,816	
Loans and advances to customers	7,749,723	5,865,370	32%
Investment securities	3,637,128	3,226,715	
Property, plant and equipment	279,035	246,690	
Intangible assets	117,916	92,515	
Other assets	119,824	125,570	
Total assets	13,093,698	10,057,288	30%
Liabilities			
Deposits from customers	9,804,940	7,950,579	23%
Deposits from banks	1,822,900	543,000	
Other liabilities	654,255	759,174	
Total liabilities	12,282,095	9,252,753	33%
Total shareholders' equity	811,603	804,535	

We continue to be focussed on diversified deposit growth in order to fund high quality customer loans.

During the first half of 2017, total assets increased by 30% to £13,094 million (31 December 2016: £10,057 million) driven by continued strong growth of loans and advances to customers.

As of 30 June 2017, total deposits from customers were £9,805 million, up from £7,951 million at the start of the year, representing six monthly growth of 23%, as we continue to expand our store network and build brand awareness. Our focus on customer service has attracted a diversified mix of low-cost sticky deposits from both new and existing FANS. Deposits from commercial customers represent 52% of total deposits at 30 June 2017 (31 December 2016: 50%). Current account deposits represent 31% of the deposit book (30 June 2016: 26.5%).

Total loans and advances to customers at 30 June 2017 were £7,750 million, up from £5,865 million at 31 December 2016, an increase of £1,884 million or 32%. The increase in Metro Bank's loans and advances to customers over this period was driven by continued building and deepening of relationships in the commercial lending team; and continued expansion of Metro Bank's residential mortgage intermediary network. In addition to record organic lending growth, on 2 June 2017, we completed the purchase of a portfolio of seasoned UK mortgages for total consideration of £592m. The portfolio consists predominantly of buy to let mortgages secured on property, and has a similar credit risk profile to our organic book.

The credit quality of our lending book remains high, with a cost of risk of 0.12% at 30 June 2017, compared to 0.10% for the full year to 31 December 2016. Non-performing loans have increased as a proportion of total lending (30 June 2017: 0.26%, 31 December 2016: 0.12%); the majority of this increase relates to loans which are well collateralised and any loss in the case of default is expected to be minimal.

Capital structure

Capital is held by the Group to protect its depositors, to cover its inherent risks, to provide a cushion for stress events and to support its business strategy. Metro Bank is committed to maintaining a strong capital base under both existing and future regulatory requirements.

Capital ratios remain robust and well above regulatory requirements. Common Equity Tier 1 Capital ("CET1") as a percentage of risk weighted assets is 13.5%. The Regulatory Leverage ratio is 4.9%. A move towards the advanced internal ratings based (AIRB) approach in the medium term presents the opportunity to achieve greater capital efficiency.

Going concern

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Group and parent company have the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including future projections of profitability, cash flows and capital resources.

Craig Donaldson
Chief Executive Officer
25 July 2017

Principal risks and uncertainties

There has been no significant change to the Group's business model, risk management framework or risk appetite during the six month period ended 30 June 2017.

A detailed description of the principal risks and uncertainties to which the Group is exposed, along with the Group's approach to mitigating these risk, is set out in the Risk Factors and Management on pages 24 to 27 of the 2016 Annual Report and Accounts. These risks include:

- strategic risk - the risk that Metro Bank fails to achieve short and long term business objectives;
- credit risk - the risk of financial loss due to an obligor's failure to meet the terms of any contract or otherwise fail to perform as agreed;
- market risk - the risk that changes in market prices, such as interest rates or prices of investment securities, will affect the Group's income or the value of its holdings of financial instruments;
- liquidity risk - the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset;
- conduct risk - the risk that our operating model, culture or actions result in unfair outcomes for customers;
- compliance and regulatory risk - the risk of financial loss or reputational damage due to regulatory fines or penalties, restriction or suspension of business, or cost of mandatory corrective action as a result of failing to adhere to applicable laws, regulations and supervisory guidance;
- operational risk - the risk of direct or indirect loss from failed or inadequate processes, people or systems, or exposure to external events; and
- financial crime - the risk of financial loss or reputational damage due to regulatory fines or penalties, restriction or suspension of business, or cost of mandatory corrective action as a result of failing to comply with prevailing legal and regulatory requirements relating to financial crime.

During the six months to 30 June 2017, the Group has not identified any new principal risks and uncertainties that will impact the remaining six months of the year. Metro is in a strong position to deal with any post European Referendum uncertainty. Since the Referendum vote we have seen no change in customer behaviour or impact on business flows.

The Board has ultimate responsibility for setting the Group's strategy, corporate objectives and risk appetite. The strategy and risk appetite take into consideration the interests of customers, shareholders and other stakeholders. The Board specifically approves the level of risk which the Group is willing to accept, and ensures there is an adequate framework in place for the reporting and management of those risks. It is responsible for maintaining an appropriate control environment to manage the principal risks, and for ensuring the capital and liquidity resources are adequate to achieve the Group's objectives within risk appetite.

The Board has delegated responsibility for reviewing the effectiveness of the Group's internal controls to the Audit Committee. The Audit Committee monitors and considers the internal control environment focusing on operational risks, internal and external audits and credit assurance, and is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The Risk Oversight Committee assists the Board in providing leadership, direction, and oversight with regard to the Group's risk governance and management, and also assists the Board in fostering a culture within the Group that emphasises and demonstrates the benefits of a risk-based approach to risk management and internal control.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The risk management policies and controls are reviewed regularly to reflect changes in market conditions and the Group's activities. Through our training and management standards and procedures, we aim to develop a robust and effective control environment in which all colleagues understand their roles and obligations.

Metro Bank’s Chief Risk Officer (“CRO”) is accountable for leadership of the risk function, which is independent from the Group’s operational and commercial functions. It is responsible for ensuring that appropriate risk management processes, policies and controls are in place, and that they are sufficiently robust, thereby ensuring that key risks are identified, assessed, monitored and mitigated. Through the risk function, the CRO is responsible for providing assurance to the Board and Directors that the principal risks are appropriately managed and that the Group is operating within risk appetite.

Directors' Responsibility Statement

The Directors are responsible for preparing the interim financial report in accordance with applicable law and regulations.

We confirm that to the best of our knowledge:

(a) the condensed set of financial statements , which has been prepared in accordance with the applicable set of accounting standards, gives a true and fair view of the assets, liabilities, financial position and profit or loss of the Group as required by DTR 4.2.4R;

(b) the interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and

(c) the interim management report includes a fair review of the information required by DTR 4.28R (disclosure of related parties' transactions and changes therein).

On behalf of the Board

Craig Donaldson
Chief Executive Officer

Mike Brierley
Chief Financial Officer

Independent review report to Metro Bank PLC

Report on the Interim Financial Statements

Our conclusion

We have reviewed Metro Bank PLC's Interim Financial Statements (the "interim financial statements") in the Interim Report of Metro Bank PLC for the 6 month period ended 30 June 2017. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority.

What we have reviewed

The interim financial statements comprise:

- the condensed consolidated balance sheet as at 30 June 2017;
- the condensed consolidated statement of comprehensive income for the period then ended;
- the condensed consolidated cash flow statement for the period then ended;
- the condensed consolidated statement of changes in equity for the period then ended; and
- the notes to the financial statements.

The interim financial statements included in the Interim Report have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2 to the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

The Interim Report, including the interim financial statements, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the Interim Report in accordance with the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the interim financial statements in the Interim Report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What a review of interim financial statements involves

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the Interim Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants
London
25 July 2017

Condensed consolidated statement of comprehensive income

For the half year to 30 June 2017

	Notes	Half year to 30 June 2017 £'000	Half year to 30 June 2016 £'000
Interest income	8	135,748	96,134
Interest expense	9	(28,306)	(29,471)
Net interest income		**107,442**	**66,663**
Fee and commission income		13,700	10,084
Net gains on sale of investment securities		1,331	1,601
Other income		8,632	5,724
Total income		**131,105**	**84,072**
Operating expenses		(105,530)	(84,558)
Depreciation and amortisation		(15,912)	(10,117)
Costs associated with listing		(744)	(3,875)
FSCS levy		(836)	(1,252)
Total operating expenses		**(123,022)**	**(99,802)**
Credit impairment charges		(3,659)	(2,405)
Profit/(loss) before tax		**4,424**	**(18,135)**
Taxation	10	(1,322)	1,167
Profit/(loss) for the period		**3,102**	**(16,968)**
Other comprehensive income for the period			
Items which will be reclassified subsequently to profit or loss where specific conditions are met:			
Available for sale investments (net of tax):			
- fair value gains		1,519	5,776
- fair value gains transferred to the income statement on disposal		(1,331)	(1,601)
Total other comprehensive income		**188**	**4,175**
Total comprehensive income/(loss) for the period		**3,290**	**(12,793)**
Earnings/(loss) per share			
Basic earnings/(loss) per share	16	**3.9 pence**	**(24.0 pence)**
Diluted earnings/(loss) per share	16	**3.8 pence**	**(24.0 pence)**

Condensed consolidated balance sheet

As at 30 June 2017

	Notes	30 June 2017 £'000	31 December 2016 £'000
Assets			
Cash and balances with the Bank of England		1,114,031	434,612
Loans and advances to banks	11	76,041	65,816
Loans and advances to customers	11	7,749,723	5,865,370
Available for sale investment securities	12	578,875	604,127
Held to maturity investment securities	12	3,058,253	2,622,588
Property, plant and equipment	13	279,035	246,690
Intangible assets	14	117,916	92,515
Prepayments and accrued income		38,262	43,000
Deferred tax asset	10	57,949	56,279
Other assets		23,613	26,291
Total assets		**13,093,698**	**10,057,288**
Liabilities			
Deposits from customers		9,804,940	7,950,579
Deposits from central banks		1,822,900	543,000
Repurchase agreements		543,490	653,091
Other liabilities		110,765	106,083
Total liabilities		**12,282,095**	**9,252,753**
Equity			
Called up share capital	15	-	-
Share premium account	15	1,028,085	1,027,645
Retained earnings		(227,091)	(230,193)
Other reserves		10,609	7,083
Total equity		**811,603**	**804,535**
Total equity and liabilities		**13,093,698**	**10,057,288**

The accounting policies, notes and information on pages 16 to 32 form part of the financial statements.

These financial statements were approved and authorised for issue by the Board of Directors on 25 July 2017 and were signed on its behalf by:

Vernon W. Hill II
Chairman

Craig Donaldson
Chief Executive Officer

Mike Brierley
Chief Financial Officer

Condensed consolidated cash flow statement

For the half year to 30 June 2017

	Notes	Half year to 30 June 2017 £'000	Half year to 30 June 2016 £'000
Reconciliation of profit/(loss) before tax to net cash flows from operating activities:			
Profit/(loss) before tax		4,424	(18,135)
Adjustments for:			
Other write-offs	13,14	225	-
Loss on disposal of fixed assets		4	-
Depreciation and amortisation of intangible and tangible assets	13,14	15,912	10,117
Share option award charges		1,809	1,438
Gain on sale of securities and fair value gains on derivatives		(1,343)	(1,590)
Accrued interest on and amortisation of investment securities		(1,590)	(7,880)
Changes in operating assets		(1,877,747)	(1,092,030)
Changes in operating liabilities		3,028,450	1,815,796
Net cash inflows from operating activities		**1,170,144**	**707,716**
Cash flows from investing activities			
Sales of investment securities		133,417	217,013
Purchase of investment securities		(541,258)	(1,056,503)
Proceeds from sale of property, plant and equipment		42	-
Purchase of property, plant and equipment	13	(41,831)	(35,112)
Purchase and development of intangible assets	14	(31,310)	(15,461)
Net cash outflows from investing activities		**(480,940)**	**(890,063)**
Cash flows from financing activities			
Shares issued (including on exercise of share options)	15	440	403,023
Cost of share issues	15	-	(5,246)
Net cash inflows from financing activities		**440**	**397,777**
Net increase in cash and cash equivalents		**689,644**	**215,430**
Cash and cash equivalents at start of period		500,428	282,148
Cash and cash equivalents at end of period		**1,190,072**	**497,578**
Profit/loss before tax includes:			
Interest received		135,656	94,367
Interest paid		(28,215)	(25,572)
Cash and cash equivalent comprise of:			
Cash and balances with the Bank of England		1,114,031	398,707
Loans and advances to banks		76,041	98,871
		1,190,072	**497,578**

Condensed consolidated statement of changes in equity

For the half year to 30 June 2017

	Share capital £'000	Share premium account £'000	Retained earnings £'000	Available for sale reserve £'000	Share option reserve £'000	Total equity £'000
Balance at 1 January 2017	**-**	**1,027,645**	**(230,193)**	**(3,472)**	**10,555**	**804,535**
Net profit for the year	-	-	3,102	-	-	3,102
Other comprehensive income, net of tax, relating to available for sale investments	-	-	-	188	-	188
Total comprehensive income	-	-	3,102	188	-	3,290
Share issue	-	440	-	-	-	440
Share option awards at fair value	-	-	-	-	3,338	3,338
Balance as at 30 June 2017	**-**	**1,028,085**	**(227,091)**	**(3,284)**	**13,893**	**811,603**
Balance at 1 January 2016	**-**	**629,304**	**(213,440)**	**(12,018)**	**3,329**	**407,175**
Net loss for the year	-	-	(16,968)	-	-	(16,968)
Other comprehensive income, net of tax, relating to available for sale investments	-	-	-	4,175	-	4,175
Total comprehensive income	-	-	(16,968)	4,175	-	(12,793)
Share issue	-	398,512	-	-	-	398,512
Share option awards at fair value	-	-	-	-	1,401	1,401
Balance as at 30 June 2016	**-**	**1,027,816**	**(230,408)**	**(7,843)**	**4,730**	**794,295**
Notes	**15**	**15**				

The available for sale reserve represents the unrealised change in the fair value of available for sale investments since initial recognition.

Notes to the financial statements

1. General information

Metro Bank provides retail and corporate banking services in the UK and is a public limited liability company incorporated and domiciled in England and Wales. The address of its registered office is: One Southampton Row London WC1B 5HA.

2. Basis of preparation and going concern

The condensed consolidated interim financial statements of Metro Bank and its subsidiaries (the Group) for the six months ended 30 June 2017 were authorised for issue in accordance with a resolution of the Directors on 25 July 2017.

These condensed consolidated interim financial statements for the six months ended 30 June 2017 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority (FCA) and IAS 34 Interim Financial Reporting as adopted by the European Union (EU). They do not include all the information required by International Financial Reporting Standards (IFRS) in full annual financial statements and should be read in conjunction with the Annual Report and Accounts for the year ended 31 December 2016. Copies of the 2016 Annual Report and Accounts are available on the Group's website.

The comparative financial information for the year ended 31 December 2016 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditor's report on those accounts was not qualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying the report and did not contain statements under section 498(2) or (3) of the Companies Act 2006.

The Directors consider that it is appropriate to continue to adopt the going concern basis of accounting in preparing the condensed consolidated interim financial statements. In reaching this assessment, the Directors have considered projections for the Group's capital and funding position and have had regard to the principal risks and uncertainties of the liquidity and capital requirements of the business over the next 12 months.

3. Accounting policies

The accounting policies and methods of computation are consistent with those applied in the 2016 Annual Report and Accounts, other than the following.

In the six months to 30 June 2017 the Group recognised a number of investment properties. These consist of shops and offices which are located within the same buildings as some of the Group's stores, where the freehold interest has been acquired. Investment property is held by the Group to earn rental income and for capital appreciation. The Group's investment properties are carried at cost less depreciation. Depreciation is calculated on a consistent basis with that applied to land and buildings as disclosed in the 2016 Annual Report and Accounts.

No other new accounting policies have been adopted in the period under review.

4. Future accounting developments

Details of those IFRS pronouncements which will be relevant to the Group but which are not effective for annual periods ending on 31 December 2017 and which have not been applied in preparing these condensed consolidated half-year financial statements were set out in the 2016 Annual Report. The standard expected to have the most material impact on the group in the next 12 months is IFRS 9, Financial Instruments.

IFRS 9 brings together the classification and measurement, impairment and hedge accounting phases of the International Accounting Standards Board's ("IASB") project to replace IAS 39, and is effective for annual periods beginning on or after 1 January 2018. The standard includes requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting.

Classification and measurement:

IFRS 9 applies one classification approach for all types of financial assets. Two criteria are used to determine how financial assets should be classified and measured: (a) the entity's business model (i.e. how an entity manages its financial assets in order to generate cash flows by collecting contractual cash flows, selling financial assets or both); and (b) the contractual cash flow characteristics of the financial asset (i.e. whether the contractual cash flows are solely payments of principal and interest). The combined effect of the application of the business model and the contractual cash flow characteristics tests may result in some differences in the population of financial assets measured at amortised cost or fair value compared with IAS 39. However, based on reviews performed to date, we do not expect that the overall impact of any change will be significant.

Impairment:

The incurred loss model under IAS 39 is replaced with a new expected loss model. Impairment provisions are driven by changes in credit risk of instruments, with a provision for lifetime expected credit losses recognised where the risk of default of an instrument has increased significantly since initial recognition. Risk of default and expected credit losses must incorporate forward looking and macroeconomic information. Expected credit loss models will require more data and assumptions with impairment provisions potentially becoming more volatile. IFRS 9 will also tend to result in an increase in the total level of impairment allowances since we will be required to consider credit losses expected on all assets in our portfolio, rather than limiting our assessment to incurred losses as currently required. We intend to quantify the potential impact of adopting IFRS 9 no later than in the Preliminary Full Year 2017 Results Announcement, expected to be issued in February 2018.

Hedge accounting:

The new requirements align hedge accounting more closely with risk management. The revised standard also establishes a more principles-based approach to hedge accounting. IFRS 9 includes an accounting policy choice to remain with IAS 39 hedge accounting. Hedge accounting is not currently material for Metro Bank and we do not have current plans to change this position. Firm policy choices relating to the adoption of IFRS 9 requirements will be made in the second half of 2017.

Transition:

IFRS 9 does not require full restatement of comparatives on adoption, but required adjustments will be made to the balance sheet at the point of implementation. Any uplift to credit impairment provisions will be posted to reserves at this point.

Metro Bank's formal IFRS 9 implementation project continues to progress. Metro Bank intends to perform a parallel run during the second half of 2017 to gain a better understanding of the expected impact of IFRS 9 adoption, and to ensure target operating models and governance are fully embedded. Full details of the impact of adopting IFRS 9 will be included in the 2017 Annual Report and Accounts.

5. Presentation of information

Presentation of risk disclosures

IAS 34 Interim Financial Statements requires certain disclosures outlined in IFRS 7 Financial Instruments: Disclosure. These include disclosures concerning the nature and extent of risks relating to financial instruments and have been included within the Principal risks and uncertainties report on pages 7 to 8.

6. Critical estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Although these estimates are based on management's best assessment of the outcome, actual results may ultimately differ from those estimates. Management believes that the underlying assumptions are appropriate and that the Group's financial statements therefore present the financial position and results fairly.

There have been no significant changes in the basis upon which critical estimates and judgements have been determined, compared to those applied at 31 December 2016.

7. Operating segments

The Group provides retail and corporate banking services. The Board considers the results of the Group as a whole when assessing the performance of the business and allocating resources. Accordingly, the Group has a single operating segment.

The Group operates solely in the UK and as such no geographical analysis is required.

8. Interest income

	Half year to 30 June 2017 £'000	Half year to 30 June 2016 £'000
Investment securities	**27,325**	21,034
Loans and advances to customers	**108,423**	75,100
Total interest Income	**135,748**	96,134

9. Interest expense

	Half year to 30 June 2017 £'000	Half year to 30 June 2016 £'000
Interest on customer accounts	**22,643**	22,874
Interest on repurchase agreements	**848**	4,145
Other	**4,815**	2,452
Total interest expense	**28,306**	29,471

10. Taxation

Tax credit / (charge) for the period

	Half year to 30 June 2017 £'000	Half year to 30 June 2016 £'000
Current tax:		
UK corporation tax	**339**	348
Adjustment in respect of prior periods	**-**	-
Total current tax charge	**339**	348
Deferred tax:		
Current period	**1,083**	(2,798)
Adjustment in respect of prior periods	**(100)**	1,283
Total deferred tax charge/(credit)	**983**	(1,515)
Total tax charge/(credit)	**1,322**	(1,167)

Factors affecting the tax credit / (charge) for the year

Total tax paid in relation to income during the period was £nil (December 2016: £nil). The tax credit on the group's profit before tax differs from the theoretical amount that would arise using the statutory tax rate applicable to the profits of the consolidated entities as follows:

	30 June 2017 £'000	30 June 2016 £'000
Profit/(loss) before tax	**4,424**	(18,135)
Profit/(loss) on ordinary activities multiplied by standard UK rate (19.25% / 20%)	**852**	(3,627)
Tax effects of:		
Expenses not deductible for tax purposes - listing fees	**-**	351
Expenses not deductible for tax purposes - other	**457**	1,989
Adjustment in respect of prior periods	**(100)**	-
Change in tax rates on the net deferred tax asset	**113**	120
Total tax charge/(credit)	**1,322**	(1,167)

In the 2016 Budget the Chancellor announced from 1 April 2017 there will be a new restriction on the amount of profit that can be offset by brought forward losses. The use of brought forward losses against current year profits will be subject to an annual allowance of £5m per group and above this allowance there will be a 50% restriction in the profits that can be covered by losses brought forward. However at the 2017 Half Year Reporting date legislation had not been substantively enacted and so has not been adjusted for.

Banks will also be subject to a lower threshold of 25% of profits that can be utilised against losses accrued by 1 April 2015. However, this loss restriction relief does not apply to the first five years of banking activity so this particular restriction will not impact the Group.

10. Taxation (continued)

In accordance with IAS 34 Interim Financial Reporting, the Group's tax charge for the half-year to 30 June 2017 is based on the best estimate of the weighted-average annual tax rate expected for the full financial year.

Deferred Tax

A deferred tax asset must be regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not there will be suitable tax profits from which the future of the underlying timing differences can be deducted.

The movement in deferred tax assets and liabilities during the period, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Unused tax losses	**Available for sale securities**	**Share based payments**	**Property, plant & equipment**	**Intangible assets**	**Total**
2017	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Deferred tax assets	60,886	732	9,391	-	258	71,267
Deferred tax liabilities	-	(1,569)	(497)	(5,259)	(5,993)	(13,318)
Deferred tax assets (net)	**60,886**	**(837)**	**8,894**	**(5,259)**	**(5,735)**	**57,949**
At 1 January 2017	61,403	(1,723)	6,195	(4,478)	(5,118)	56,279
Income statement	(179)	-	594	(781)	(617)	(983)
Other comprehensive income	(338)	886	-	-	-	548
Equity	-	-	2,105	-	-	2,105
At 30 June 2017	**60,886**	**(837)**	**8,894**	**(5,259)**	**(5,735)**	**57,949**

	Unused tax losses	**AFS reserve**	**Share based payments**	**Property, plant & equipment**	**Intangible assets**	**Total**
2016	£'000	£'000	£'000	£'000	£'000	£'000
Deferred tax assets	60,806	2,261	1,542	71	79	64,759
Deferred tax liabilities	-	(3,007)	(873)	(2,774)	(3,838)	(10,492)
Deferred tax assets (net)	60,806	(746)	669	(2,703)	(3,759)	54,267
At 1 January 2016	**56,163**	**-**	**1,499**	**(1,861)**	**(2,747)**	**53,054**
Income statement	4,643	-	(1,273)	(842)	(1,013)	1,515
Other comprehensive income	-	(746)	-	-	-	(746)
Equity	-	-	443	-	-	443
At 30 June 2016	**60,806**	**(746)**	**669**	**(2,703)**	**(3,759)**	**54,267**

11. Loans and advances to customers and banks

Total loans and advances to customers

	30 June 2017 £'000	31 December 2016 £'000
Gross Loans and advances to customers	**7,760,093**	5,872,864
Less: allowance for impairment	**(10,370)**	(7,494)
Net Loans and advances to customers	**7,749,723**	5,865,370
Amounts include:		
Repayable on demand or at short notice	**179,094**	49,215

Loans and advances to customers by category

	30 June 2017 £'000	31 December 2016 £'000
Individual (retail customers):		
- Overdraft	**83,132**	66,088
- Credit Cards	**7,881**	7,369
- Term Loans	**109,250**	107,584
- Mortgages	**4,948,381**	3,604,591
Corporate:		
- Overdraft	**86,070**	32,613
- Credit Cards	**2,011**	1,681
- Term Loans	**2,320,799**	1,874,104
- Asset and Invoice Finance	**194,587**	164,295
- Senior Secured Lending	**7,982**	14,539
Total loans to customers	**7,760,093**	5,872,864

Credit quality of loans and advances to customers and banks

All loans and advances are categorised as either 'neither past due nor impaired', 'past due but not impaired', 'individually impaired', or 'portfolio impaired'. For the purposes of the disclosures in the loan asset credit quality section below:

- A loan is considered past due when the borrower has failed to make a payment when due under the terms of the loan contract.
- The impairment allowance includes allowances against financial assets that have been individually-impaired and those subject to collective impairment.
- Loans neither past due nor impaired and loans that are past due but not impaired consist predominantly of corporate and retail loans that are performing and whilst not individually impaired, may be subject to a collective impairment allowance.
- Impaired loans that are individually assessed consist predominantly of corporate loans that are past due and for which an individual allowance has been raised.
- Portfolio impaired loans, which are not included in the categories above, consist predominantly of retail loans that are 90 days or more past due.

11. Loans and advances to customers and banks (continued)

	30 June 2017	
	Loans and advances to customers £'000	**Loans and advance to banks £'000**
Neither past due nor impaired	**7,663,671**	**76,041**
Past due but not impaired	**67,253**	**-**
Individually impaired	**10,187**	**-**
Portfolio impaired	**18,982**	**-**
Total	**7,760,093**	**76,041**
Less: allowance for impairment	**(10,370)**	**-**
Total	**7,749,723**	**76,041**
Individually impaired	**(1,918)**	**-**
Collectively impaired*	**(8,452)**	**-**
Total	**(10,370)**	**-**

	31 December 2016	
	Loans and advances to customers £'000	Loans and advance to banks £'000
Neither past due nor impaired	5,762,719	65,816
Past due but not impaired	88,811	-
Individually impaired	6,555	-
Portfolio impaired	14,779	-
Total	5,872,864	65,816
Less: allowance for impairment	(7,494)	-
Total	5,865,370	65,816
Individually impaired	(1,825)	-
Collectively impaired*	(5,669)	-
Total	(7,494)	-

* The collectively impaired provision includes provisions held against loans which are included in the neither past due nor impaired, the past due but not impaired and the Portfolio impaired categories shown above.

11. Loans and advances to customers and banks (continued)

Past due but not impaired

Late processing and other administrative delays on the side of the borrower can lead to a financial asset being in early past due but not impaired. The average debt to value of exposures which are past due but not impaired is 57% and the total collective impairment for past due and not impaired is £1 million.

Gross amount of loans and advances by class to customers that were past due but not impaired were as follows:

30 June 2017

	Mortgages £'000	**Corporate £'000**	**Other £'000**	**Total £'000**
Past due less than 7 days	**8,211**	**29,771**	**1,091**	**39,073**
Past due 7-30 days	**5,725**	**8,690**	**569**	**14,984**
Past due 31-60 days	**8,132**	**1,699**	**876**	**10,707**
Past due 61-90 days	**1,864**	**72**	**553**	**2,489**
Over 90 days	**-**	**-**	**-**	**-**
Total	**23,932**	**40,232**	**3,089**	**67,253**

31 December 2016

	Mortgages £'000	Corporate £'000	Other £'000	Total £'000
Past due less than 7 days	15,994	45,237	958	62,189
Past due 7-30 days	5,859	14,710	1,984	22,553
Past due 31-60 days	2,051	96	631	2,778
Past due 61-90 days	599	60	461	1,120
Over 90 days	-	171	-	171
Total	24,503	60,274	4,034	88,811

Residential mortgage lending

The table below stratifies credit exposures from mortgage loans and advances to customer by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan to the value of the collateral. The gross amounts exclude any impairment allowance. The value of the collateral for residential mortgage loans is based on the collateral value at origination, updated every 6 months based on changes in house price indices.

The increase in concentration for the LTV ratio > 90% reflects the acquisition of a portfolio of UK mortgages on 2 June 2017. The portfolio has a similar credit risk profile to our organic book and good payment performance has been observed over time.

LTV ratio	**30 June 2017 £'000**	31 December 2016 £'000
Less than 50%	**1,422,981**	1,121,993
51-70%	**2,200,116**	1,635,626
71-90%	**1,211,129**	756,025
91-100%	**60,660**	41,224
More than 100%	**53,495**	49,723
Total	**4,948,381**	3,604,591

11. Loans and advances to customers and banks (continued)

The general credit worthiness of a corporate customer tends to be the most relevant indicator of credit quality of a loan extended to it. However, collateral provides additional security and the Group generally requests that corporate borrowers provide it. The Group usually takes collateral in the form of a first charge over real estate (retail and commercial), floating charges over all corporate assets and other liens and guarantees.

Concentrations of credit risk

The Group monitors concentrations of credit risk by sector for commercial term loans exposure. The Group risk appetite is set at the beginning of every year and monitored by a committee of the Board.

	30 June 2017		31 December 2016	
	Gross balance	**Concentration**	Gross balance	Concentration
	£'000	**%**	£'000	%
Real estate (rent, buy and sell)	**1,371,165**	**59**	1,064,194	57
Legal, Accountancy & Consultancy	**281,493**	**12**	276,164	15
Health & Social Work	**200,451**	**9**	177,931	10
Hospitality	**142,966**	**6**	95,600	5
Real estate (management of)	**80,097**	**4**	90,240	5
Retail	**57,789**	**3**	37,009	2
Construction	**50,190**	**2**	58,204	3
Investment and unit trusts	**19,619**	**1**	20,448	1
Recreation, cultural and sport	**11,485**	**0**	8,643	0
Real estate (development)	**10,486**	**0**	2,036	0
Education	**2,705**	**0**	1,484	0
Other	**92,353**	**4**	42,151	2
Total	**2,320,799**	**100**	1,874,104	100

The debt to value ("DTV") ratio is calculated as the ratio of the gross outstanding amount of a loan to the indexed value of the collateral. The commercial portfolio DTV is below 60% and the proportion of the exposure with DTV >80% has slightly increased in H1 2017 compared to December 2016.

The Group experienced an increase in commercial non-performing loans ("NPLs"). Each NPL case is individually managed and specific (individual) provisions are calculated and reviewed by the Group's Provisions Committee. Whilst commercial NPLs have increased over the period, the majority of the increase relates to loans which are well collateralised and any loss in the case of eventual default is expected to be minimal. As a result, impairment provisions have not increased to the same extent as NPLs.

	30 June 2017	31 December 2016
	£'000	£'000
Total commercial lending	**2,611,449**	2,087,232
% of total lending	**34%**	36%
Average DTV	**57%**	57%
DTV > 80%	**7%**	6%
NPL ("non-performing-loan") ratio*	**0.3%**	0.1%

*The non-performing-loan ratio is calculated as the ratio of the gross outstanding amount of loans with more than three instalments unpaid to the gross outstanding amount

11. Loans and advances to customers and banks (continued)

Movement in allowances for impairment

	£'000
Allowance for impairment at 1 January 2017	**(7,494)**
Write offs	**866**
Increase in impairment allowance	**(3,742)**
Allowance for impairment at 30 June 2017	**(10,370)**

	£'000
Allowance for impairment at 1 January 2016	(6,783)
Write offs	351
Reversal of impairment	1,620
Increase in impairment allowance	(3,442)
Allowance for impairment at 30 June 2016	(8,254)

12. Investment securities

	Level 1 £'000	Level 2 £'000	Total £'000
Investment securities held at fair value (recurring fair value measurement)			
Financial investments: available for sale			
As at 30 June 2017	**308,201**	**270,674**	**578,875**
As at 31 December 2016	274,027	330,100	604,127

The classification of a financial instrument is based on the lowest level input that is significant to the fair value measurement in its entirety. The two levels of the fair value hierarchy are defined below.

Quoted market prices – Level 1
Financial instruments are classified as Level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price represents actual and regularly occurring market transactions on an arm's length basis. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

Valuation technique using observable inputs – Level 2
Inputs other than quoted prices included within Level 1 that are observable for the asset, either directly (as prices) or indirectly (derived from prices).

Reclassification between categories

On 17 February, £33.2 million of financial assets classified as available for sale were reclassified as held to maturity. On 18 April, £60.4 million of financial assets classified as available for sale were reclassified as held to maturity. The carrying amount (excluding accrued interest) and fair value of the assets at 1 January 2017, 17 February 2017, 18 April 2017 and 30 June 2017 were as follows:

	Carrying amount £'000	Fair value £'000
As at 1 Jan 2017	**97,188**	**97,188**
Amounts reclassified as at 17 Feb 2017	33,178	33,178
Amounts reclassified as at 18 Apr 2017	60,354	60,354
At 30 Jun 2017	99,663	99,911

A fair value loss of £3.7 million was recognised with respect to the reclassified assets in 2017; had these assets not been reclassified, an additional fair value gain of £6.4 million would have been recognised in other comprehensive income. The effective interest rates on available for sale assets reclassified to held to maturity at 1 January 2017 and 30 June 2017 ranged from 1.9% to 1.75%, with all cash flows expected to be recoverable. As at 30 June 2017 and 31 December 2016, financial investments classified as held to maturity were as follows:

	Carrying amount £'000	Fair value £'000
As at 30 June 2017	**3,058,253**	**3,098,864**
At 31 December 2016	2,622,588	2,651,136

13. Property, plant and equipment

	Leasehold improvements £'000	Freehold land and buildings £'000	Fixtures fittings and equipment £'000	IT Hardware £'000	Investment Property £'000	Total £'000
Cost or valuation						
1 January 2017	**171,056**	**84,571**	**20,817**	**30,731**	**-**	**307,175**
Additions	12,739	22,096	1,663	1,256	4,077	41,831
Disposals	-	-	(115)	-	-	(115)
Transfers	(217)	(8,266)	160	-	8,323	-
Other write offs	(186)	(53)	-	-	-	(239)
Reclassifications	(69)	(372)	-	-	-	(441)
30 June 2017	**183,323**	**97,976**	**22,525**	**31,987**	**12,400**	**348,211**
Accumulated depreciation						
1 January 2017	**21,982**	**3,376**	**10,937**	**24,190**	**-**	**60,485**
Charge for the period	4,149	492	1,807	2,322	40	8,810
Disposals	-	-	(70)	-	-	(70)
Transfers	52	(64)	12	-	-	-
Other write offs	(31)	(13)	-	-	-	(44)
Reclassifications	(5)	-	-	-	-	(5)
30 June 2017	**26,147**	**3,791**	**12,686**	**26,512**	**40**	**69,176**
Net book value at 30 June 2017	**157,176**	**94,185**	**9,839**	**5,475**	**12,360**	**279,035**
Cost or valuation						
1 January 2016	156,238	8,273	17,400	27,439	-	209,350
Additions	12,269	20,931	1,067	845	-	35,112
Transfers	2,030	-	(2,030)	-	-	-
30 June 2016	**170,537**	**29,204**	**16,437**	**28,284**	**-**	**244,462**
Accumulated depreciation						
1 January 2016	17,110	-	7,920	19,063	-	44,093
Charge for the period	3,774	-	1,239	2,700	-	7,713
30 June 2016	**20,884**	**-**	**9,159**	**21,763**	**-**	**51,806**
Net book value at 30 June 2016	**149,653**	**29,204**	**7,278**	**6,521**	**-**	**192,656**
Net book value at 31 December 2016	**149,074**	**81,195**	**9,880**	**6,541**	**-**	**246,690**

During the period, the group re-classified £8.3 million existing property assets from the Land and Buildings category to Investment Property, and a portion of newly acquired assets were designated as Investment Property. These assets relate to the portions of our freehold sites which are not utilised by the group and are leased to third parties. The Group's investment properties are carried at cost less depreciation. Depreciation is calculated on a basis consistent with that applied to land and buildings as disclosed in the 2016 Annual Report and Accounts.

14. Intangibles

	Goodwill £'000	Customer contracts £'000	Software £'000	Total £'000
Cost or valuation				
1 January 2017	4,140	600	101,797	106,537
Additions	-	-	31,310	31,310
Other write offs	-	-	(30)	(30)
Reclassification	-	-	1,545	1,545
30 June 2017	**4,140**	**600**	**134,622**	**139,362**
Amortisation				
1 January 2017	-	205	13,817	14,022
Charge for the period	-	30	7,072	7,102
Reclassification	-	-	322	322
30 June 2017	**-**	**235**	**21,211**	**21,446**
Net book value at 30 June 2017	**4,140**	**365**	**113,411**	**117,916**

	Goodwill	Customer contracts	Software	Total
Cost or valuation				
1 January 2016	4,140	600	56,745	61,485
Additions	-	-	15,461	15,461
30 June 2016	**4,140**	**600**	**72,206**	**76,946**
Amortisation				
1 January 2016	-	145	7,097	7,242
Charge for the period	-	30	2,374	2,404
30 June 2016	**-**	**175**	**9,471**	**9,646**
Net book value at 30 June 2016	**4,140**	**425**	**62,735**	**67,300**
Net book value at 31 December 2016	**4,140**	**395**	**87,980**	**92,515**

15. Share capital

As at 30 June 2017 the Group had 80.4 million ordinary shares of 0.0001 pence (31 December 2016: 80.3m) in issue.

During the six months to 30 June 2017 the Group issued 65,000 ordinary shares all of which relate to the exercise of previously awarded share options.

	Half year to 30 June 2017 £'000	**Year to 31 December 2016 £'000**
Called up ordinary share capital, issued and fully paid		
At beginning of the period	-	-
Shares issued on exercise of share options	-	-
At end of the period	**-**	**-**

	Half year to 30 June 2017 £'000	**Year to 31 December 2016 £'000**
Share premium account		
At beginning of the period	**1,027,645**	629,304
Shares issued on exercise of share options	**440**	403,572
Costs of shares issued	**-**	(5,231)
At end of the period	**1,028,085**	1,027,645

16. Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary equity holders of Metro Bank by the weighted average number of ordinary shares in issue during the period.

	30 June 2017	30 June 2016
Earnings attributable to ordinary equity holders of Metro Bank (£'000)	**3,102**	(16,968)
Weighted average number of ordinary shares in issue (thousands)	**80,379**	69,748
Basic earnings/(loss) per share (pence)	**3.9**	(24.0)

Diluted earnings per share has been calculated based on the same profit or loss attributable to ordinary equity holders of Metro Bank and weighted average number of ordinary shares in issue after the effect of adjustment for potential dilutive ordinary shares, which comprise share options granted to colleagues. Potential ordinary shares should only be treated as dilutive when their conversion to ordinary shares results in a reduction in earnings per share or an increase in loss per share. As Metro Bank had a loss attributable to ordinary equity holders of Metro Bank in 2016, for this year, the share options would be antidilutive, as they would reduce the loss per share. Therefore, they are disregarded in the calculation of dilutive earnings per share.

	30 June 2017	30 June 2016
Earnings attributable to ordinary equity holders of Metro Bank (£'000)	**3,102**	(16,968)
Weighted average number of ordinary shares in issue (thousands)	**81,889**	69,748
Diluted earnings/(loss) per share (pence)	**3.8**	(24.0)

17. Fair value of financial instruments

The fair values of financial instruments are based on market prices, where available, or are estimated using other valuation techniques. Where financial instruments are short term in nature or re-price frequently, their fair value approximates to carrying value. Apart from investment securities all other assets and liabilities are deemed to have a fair value hierarchy of level 3. Level 3 is defined as – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

		Fair value - Valuation techniques			
	Carrying value £'000	**Quoted market price Level 1 £'000**	**Using observable inputs Level 2 £'000**	**With significant unobservable inputs Level 3 £'000**	**Total fair value £'000**
30 June 2017					
Assets					
Cash and balances with the Bank of England	**1,114,031**	**-**	**-**	**-**	**1,114,031**
Loans and advances to banks	**76,041**	**-**	**-**	**76,041**	**76,041**
Loan and advances to customers	**7,749,723**	**-**	**-**	**7,850,112**	**7,850,112**
Investment securities	**3,637,128**	**612,789**	**2,486,075**	**-**	**3,098,864**
Liabilities					
Deposits from customers	**9,804,940**	**-**	**-**	**9,799,053**	**9,799,053**
Deposits from central banks	**1,822,900**	**-**	**-**	**1,822,900**	**1,822,900**
Repurchase agreements	**543,490**	**-**	**-**	**-**	**543,490**
31 December 2016					
Assets					
Cash and balances with the Bank of England	434,612	-	-	-	434,612
Loans and advances to banks	65,816	-	-	65,816	65,816
Loan and advances to customers	5,865,370	-	-	6,093,436	6,093,436
Investment securities	3,226,715	877,226	2,378,037	-	3,255,263
Liabilities					
Deposits from customers	7,950,579	-	-	7,946,687	7,946,687
Deposits from central banks	543,000	-	-	543,000	543,000
Repurchase agreements	653,091	-	-	-	653,091

For the cash and balances with the Bank of England and repurchase agreements, the carrying value approximates to the fair value, and therefore no pricing level has been identified for them above.

17. Fair value of financial instruments (continued)

Information on how fair values are calculated for the financial assets and liabilities noted above are explained below:

(a) *Cash and balances with the Bank of England / Loans and advances to banks*
Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the balance sheet date. Fair values approximate carrying amounts as their balances are generally short dated.

(b) *Loans and advances to customers*
Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the balance sheet date, adjusted for future credit losses and prepayments, if considered material.

(c) *Investment securities*
The fair value of investment securities is based on either observed market prices for those securities that have an active trading market (fair value level 1 assets), or using observable inputs (in the case of fair value level 2 assets).

(d) *Deposits from customers*
Fair values are estimated using discounted cash flows, applying current rates offered for deposits of similar remaining maturities. The fair value of a deposit repayable on demand is approximated by its carrying value.

(e) *Deposits from central banks / repurchase agreements*
Fair values are estimated using discounted cash flows, applying current rates. Fair values approximate carrying amounts as their balances are generally short dated.

18. Related party transactions

There were no changes to the nature of the related party transactions during the period to 30 June 2017 that would materially affect the position or performance of the Group.

Architecture, design and branding services are provided to the Group by InterArch, Inc., ("InterArch") a firm which is owned by Shirley Hill, the wife of Chairman Vernon W. Hill II. The cost of these services in the six months to 30 June 2017 was £2.0 million (six months to 30 June 2016: £1.4 million). The balance owed to InterArch at 30 June 2017 was £0.1 million (30 June 2016: £0.3 million).

19. Post balance sheet events

There have been no material post balance sheet events.